

EMPLOYER BULLETIN

Suggested Format to Comply with Pension Disclosure Requirements of GASB Statement Numbers 24 and 27

July 2005

Please forward a copy of this bulletin to the auditors of your financial statements and to your district superintendent.

Overview

The following information covers your reporting requirements under two statements issued by the Governmental Accounting Standards Board (GASB). Statement No. 24, *Accounting and Financial Reporting for Certain Grants and Other Financial Assistance*, provides reporting requirements for state contributions made on behalf of your TRS-covered employees. Statement No. 27, *Accounting for Pensions by State and Local Government Employers*, provides reporting requirements for other types of employer contributions.

On pages three and four, we have provided a suggested format for disclosure that covers both GASB statements. When using the suggested format, please substitute your amounts where "\$xx,xxx" occurs. The suggested format also provides for disclosure of the applicable contributions in the two previous fiscal years.

If your district's financial statements use a payroll figure that is different from the amount reported to us as creditable earnings or if your district's financial statements are on a cash basis rather than an accrual basis, ask your district's auditors which payroll figure to use for GASB disclosure.

"On behalf" employer contributions

For the year ended **June 30, 2005**, the estimated state contribution made on behalf of your TRS-covered employees can be determined by mul-

tiplying TRS-covered salaries by the statutory contribution rate of **11.76** percent. (For the years ended June 30, 2004 and June 30, 2003, the state on behalf contribution rates were 13.98 percent and 13.01 percent of covered payrolls in those years, respectively.) Please note that the State of Illinois sent the "on behalf" employer contributions directly to us. Because you do not remit these contributions, we cannot verify the "on behalf" contributions for individual employers.

The rates we use in this bulletin are state contribution rates certified according to state statute. Actual state contributions are based on these rates and member payrolls estimated by the actuaries. Actual member payroll may vary from estimated payroll.

Note: If you are preparing your budget for the fiscal year ending **June 30, 2006**, the certified state on behalf contribution rate is **7.06** percent of covered payroll.

Other employer contributions

We have suggested additional language for payments made to us for three other types of employer contributions:

- district contributions for the 2.2 formula change,
- district contributions for members paid from federal and trust funds, and
- district contributions for the Early Retirement Option.



Questions

If you have questions, please contact the Employer Services Department by calling (888) 877-0890 or via e-mail at employers@trs.illinois.gov. Additional copies of this bulletin may be obtained from the TRS Web site.

Auditors wishing to confirm the amount of contributions remitted by employers (other than “on behalf” contributions) should mail these requests to the Employer Services Department at the TRS address printed on the front of this bulletin or e-mail the request to the above e-mail address.

Suggested format for disclosure of employer contributions to TRS

The school district (employer) participates in the Teachers' Retirement System of the State of Illinois (TRS). TRS is a cost-sharing multiple-employer defined benefit pension plan that was created by the Illinois legislature for the benefit of Illinois public school teachers employed outside the city of Chicago.

The Illinois Pension Code outlines the benefit provisions of TRS, and amendments to the plan can be made only by legislative action with the Governor's approval. The State of Illinois maintains primary responsibility for the funding of the plan, but contributions from participating employers and members are also required. The TRS Board of Trustees is responsible for the system's administration.

TRS members include all active nonannuitants who are employed by a TRS-covered employer to provide services for which teacher certification is required. The active member contribution rate through June 30, 2005 was 9 percent of creditable earnings. These contributions, which may be paid on behalf of employees by the employer, are submitted to TRS by the employer.

In addition, virtually all employers and members pay a contribution to the Teachers' Health Insurance Security (THIS) Fund, a separate fund in the State Treasury that is not a part of this retirement plan. The employer THIS Fund contribution was 0.5 percent during the year ended June 30, 2005, and the member THIS Fund health insurance contribution was 0.75 percent.

The State of Illinois makes contributions directly to TRS on behalf of the district's TRS-covered employees.

- ***On behalf contributions***

The State of Illinois makes employer pension contributions on behalf of the district. For the year ended June 30, 2005, State of Illinois contributions were based on 11.76 percent of creditable earnings, and the district recognized revenue and expenditures of \$xx,xxx in pension contributions that the State of Illinois paid directly to TRS. For the years

ended June 30, 2004 and June 30, 2003, the State of Illinois contribution rates as percentages of creditable earnings were 13.98 percent (\$xx,xxx) and 13.01 percent (\$xx,xxx), respectively.

The district makes three other types of employer contributions directly to TRS.

- ***2.2 formula contributions***

For the years ended June 30, 2005, and June 30, 2004, employers contributed 0.58 percent of creditable earnings for the 2.2 formula change. Contributions for the years ending June 30, 2005, and June 30, 2004, were \$xx,xxx and \$xx,xxx, respectively.

For the year ended June 30, 2003, part of the employer's 2.2 formula contribution (0.58 percent of pay) was reduced as a result of a new employer THIS Fund contribution for retiree health insurance (0.4 percent of pay). The remaining 0.18 percent was submitted to TRS. Contributions for the year ended June 30, 2003 were \$xx,xxx.

- ***Federal and trust fund contributions***

When TRS members are paid from federal and trust funds administered by the district, there is a statutory requirement for the district to pay an employer pension contribution from those funds. For the three years ended June 30, 2005, the employer pension contribution was 10.5 percent of salaries paid from those funds. For the year ended June 30, 2005, salaries totaling \$xx,xxx were paid from federal and trust funds that required employer contributions of \$xx,xxx. For the years ended June 30, 2004 and June 30, 2003, required district contributions were \$xx,xxx and \$xx,xxx, respectively.

- ***Early Retirement Option (ERO)***

The district is also required to make one-time employer contributions to TRS for members retiring under the Early Retirement Option (ERO). The payments vary depending on the age and salary of the member. No member or employer contributions are required if the member has 34 years of service.

The maximum employer payment of 100 percent of the member's highest salary used in the calculation of final average salary is required if the member is 55 years old. For the year ending June 30, 2005, the district paid \$xx,xxx for employer contributions under the ERO. For the years ended June 30, 2004 and June 30, 2003, the district paid \$xx,xxx and \$xx,xxx, respectively.

Changes

Public Act 94-0004, which was signed into law on June 1, 2005, contained a number of provisions affecting employer and active member contributions. Most will not be effective or impact financial statements until the year ending June 30, 2006. The changes are summarized below:

- **Active member contributions**

The active member contribution rate will increase from the current 9.0 percent of creditable earnings to 9.4 percent beginning July 1, 2005. The increase is to help cover the cost of the new ERO program and will be refunded if the member does not retire under ERO.

- **State/federal contributions**

Under a policy adopted by the Board of Trustees before Public Act 94-0004 was enacted, the employer contribution rate for employees paid from federal funds will be the same as the rate paid by the state. Under Public Act 94-0004, the state contribution rate in FY 2006 was reduced to 7.06 percent of pay. Therefore, the employer contribution rate for employees paid from federal funds in FY 2006 will be 7.06 percent, a decrease from the current 10.50 percent.

- **New employer contributions**

Salary increases over 6 percent

If employers grant salary increases in excess of 6 percent that are used in final average salary calculations, the employer will make a lump-sum contribution to TRS to cover the cost of the portion of the benefit due to salary increases over 6 percent. Public Act 94-0004 exempts salary increases granted under contracts and collective bargaining agreements in effect on June 1, 2005.

Sick leave in excess of normal allotment

If employers grant sick leave near retirement in excess of the normal annual allotment and that sick leave is counted as service credit, the employer will make a lump-sum contribution to TRS. The act exempts sick leave granted under contracts and collective bargaining agreements in effect on June 1, 2005.

- **Early Retirement Option**

In addition to changes described above, the following changes were made to ERO:

- Both active member and employer ERO contribution rates are increased. For employers, the maximum contribution increases from the current 100 percent of the member's highest salary used in the calculation of final average salary to 117.5 percent.
- The waiver of member and employer ERO contributions when the member has 34 years of service ended with the program that expired June 30, 2005.
- A "Pipeline ERO" program is provided for members to retire under the same terms as the ERO program that expired June 30, 2005, provided they meet certain conditions and retire on or before July 1, 2007.
- Public Act 94-0004 provides for a review of the member and employer ERO contributions every five years to ensure that the program is revenue neutral.

Further information

TRS financial information, an explanation of TRS benefits, and descriptions of member, employer and state funding requirements can be found in the TRS *Comprehensive Annual Financial Report* for the year ended June 30, 2004. The report for the year ended June 30, 2005, is expected to be available in late 2005.

The reports may be obtained by writing to the Teachers' Retirement System of the State of Illinois, P.O. Box 19253, 2815 West Washington Street, Springfield, IL 62794-9253. The most current report is also available on the TRS Web site at trs.illinois.gov.